

**INOVALIS REAL ESTATE INVESTMENT TRUST
CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

March 31, 2021

(Unaudited)

Disclosure of non-review of interim condensed consolidated financial statements for the quarters ended March 31, 2021 and 2020

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim condensed consolidated financial statements of the REIT for the quarters ended March 31, 2021 and 2020 have been prepared in accordance with International Accounting Standard 34, Interim Financial reporting, and are the responsibility of the REIT's management.

The REIT's external auditors, Ernst & Young LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by Chartered Professional Accountants Canada for a review of the financial statements by the external auditors of an entity.

Inovalis Real Estate Investment Trust
Interim Consolidated Balance Sheets
(Unaudited)

(All dollar amounts in thousands of Canadian dollars)

| Assets | Note | As at March 31, 2021 | As at December 31, 2020 |
|--|------|----------------------|-------------------------|
| Non-current assets | | | |
| Investment properties | 5 | 514 696 | 541 218 |
| Investments in joint ventures | 7 | 72 003 | 75 987 |
| Derivative financial instruments | 21 | 282 | - |
| Restricted cash | - | 5 088 | 4 874 |
| Total non-current assets | | 592 069 | 622 079 |
| Current assets | | | |
| Trade receivables and other financial assets | 8 | 8 003 | 6 623 |
| Derivative financial instruments | 21 | 377 | 15 |
| Other current assets | - | 2 198 | 2 444 |
| Restricted cash | - | 53 | 552 |
| Cash | - | 69 532 | 80 376 |
| Total current assets | | 80 163 | 90 010 |
| Total assets | | 672 232 | 712 089 |
| Liabilities and equity | Note | As at March 31, 2021 | As at December 31, 2020 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Interest-bearing loan | - | 395 | 474 |
| Mortgage loans | 9 | 127 532 | 152 737 |
| Lease liabilities | 9 | 114 289 | 121 813 |
| Tenant deposits | - | 1 231 | 1 490 |
| Derivative financial instruments | 21 | 1 933 | 3 091 |
| Deferred tax liabilities | - | 12 462 | 13 212 |
| Total non-current liabilities | | 257 842 | 292 817 |
| Current liabilities | | | |
| Interest-bearing loan | - | 36 | 36 |
| Mortgage loans | 9 | 21 123 | 4 752 |
| Lease liabilities | 9 | 7 303 | 8 474 |
| Lease equalization loans | - | 173 | 371 |
| Tenant deposits | - | 563 | 1 009 |
| Derivative financial instruments | 21 | 1 320 | 2 382 |
| Exchangeable securities | 11 | 10 624 | 9 945 |
| Trade and other payables | 12 | 13 342 | 11 052 |
| Income tax payable | - | 4 219 | 4 069 |
| Deferred income | - | 1 210 | 521 |
| Total current liabilities | | 59 913 | 42 611 |
| Total liabilities | | 317 755 | 335 428 |
| Equity | | | |
| Trust units | 17 | 286 975 | 286 975 |
| Retained earnings | - | 50 832 | 53 350 |
| Accumulated other comprehensive income | 18 | 15 280 | 34 913 |
| Total Unitholders' equity | | 353 087 | 375 238 |
| Non-controlling interest | - | 1 390 | 1 423 |
| Total equity | | 354 477 | 376 661 |
| Total liabilities and equity | | 672 232 | 712 089 |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

On behalf of the Board of Trustees of Inovalis Real Estate Investment Trust:

Daniel Argiros
Chairman and Trustee

Jo-Ann Lempert
Audit Chair and Trustee

Inovalis Real Estate Investment Trust
Interim Consolidated Statements of Earnings
For the three months ended March 31,
(Unaudited)

(All dollar amounts in thousands of Canadian dollars, except for per unit amounts)

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|--------------|---------------|
| Rental revenue | 13 | 7 420 | 6 878 |
| Property operating cost recoveries | 13 | 2 041 | 1 571 |
| Property operating costs | 14 | (4 882) | (4 171) |
| Other revenues | - | 67 | 5 |
| Other property operating expenses | - | (208) | (33) |
| Net rental income | | 4 438 | 4 250 |
| General and administrative expenses | 14 | (2 461) | (2 242) |
| Foreign exchange (loss) gain | - | (886) | 2 647 |
| Net change in fair value of investment properties | 5 | 1 710 | 1 702 |
| Share of net income from joint ventures | 7 | 429 | 183 |
| Operating earnings | | 3 230 | 6 540 |
| Net change in fair value of Financial derivatives | - | 2 834 | 122 |
| Net change in fair value of Exchangeable securities | 11 | (679) | 4 307 |
| Net change in fair value of Promissory notes | 10 | - | 21 752 |
| Finance income | 15 | 880 | 2 265 |
| Finance costs | 15 | (1 705) | (2 468) |
| Distributions on Exchangeable securities | 11 | (230) | (190) |
| Income before income taxes | | 4 330 | 32 328 |
| Current income tax expense | - | (177) | (9) |
| Deferred income tax recovery (expense) | - | 55 | (219) |
| Total income tax expense | | (122) | (228) |
| Net income | | 4 208 | 32 100 |
| Net income attributable to : | | | |
| Non-controlling interest | - | 43 | 12 |
| Unitholders of the Trust | - | 4 165 | 32 088 |
| | | 4 208 | 32 100 |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Inovalis Real Estate Investment Trust
Interim Consolidated Statements of Comprehensive Income
For the three months ended March 31,
(Unaudited)

(All dollar amounts in thousands of Canadian dollars)

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|-----------------|---------------|
| Net income for the period | - | 4 208 | 32 100 |
| Other comprehensive (loss) income | | | |
| Items that may be reclassified subsequently to income : | | | |
| Net losses on derivatives designated as a hedge of the net investment in a foreign entity | - | (190) | (3 172) |
| Change in cumulative translation adjustment account | - | (19 610) | 22 289 |
| Other comprehensive (loss) income | | (19 800) | 19 117 |
| Total comprehensive (loss) income | | (15 592) | 51 217 |
| Total comprehensive (loss) income attributable to : | | | |
| Non-controlling interest | - | (124) | 92 |
| Unitholders of the Trust | - | (15 468) | 51 125 |
| Total comprehensive (loss) income | | (15 592) | 51 217 |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Consolidated Statements of Changes in Equity
For the three months ended March 31,
(Unaudited)

(All dollar amounts in thousands of Canadian dollars, unless otherwise stated)

| | <i>Note</i> | Number of Units issued and outstanding | Trust Units | Retained earnings | Accumulated other comprehensive income | Total attributable to the Unitholders' of the Trust | Non- controlling interest | Total equity |
|---|-------------|--|-----------------------|----------------------|---|--|---------------------------------|-----------------------|
| As at December 31, 2019 | | 28 742 306 | 259 526 | 57 827 | 14 591 | 331 944 | 1 200 | 333 144 |
| Issuance costs | - | - | (16) | - | - | (16) | - | (16) |
| Distributions earned by or declared to Unitholders | 16 | - | - | (5 942) | - | (5 942) | - | (5 942) |
| Distributions under the Trust's reinvestment plan | 16 | 104 167 | 980 | - | - | 980 | - | 980 |
| | | <u>104 167</u> | <u>964</u> | <u>(5 942)</u> | <u>-</u> | <u>(4 978)</u> | <u>-</u> | <u>(4 978)</u> |
| Net income for the three months | - | - | - | 32 088 | - | 32 088 | 12 | 32 100 |
| Other comprehensive income | - | - | - | - | 19 037 | 19 037 | 80 | 19 117 |
| Comprehensive income | | <u>-</u> | <u>-</u> | <u>32 088</u> | <u>19 037</u> | <u>51 125</u> | <u>92</u> | <u>51 217</u> |
| As at March 31, 2020 | | <u>28 846 473</u> | <u>260 490</u> | <u>83 973</u> | <u>33 628</u> | <u>378 091</u> | <u>1 292</u> | <u>379 383</u> |
| As at December 31, 2020 | 18 | <u>32 400 585</u> | <u>286 975</u> | <u>53 350</u> | <u>34 913</u> | <u>375 238</u> | <u>1 423</u> | <u>376 661</u> |
| Distributions earned by or declared to Unitholders | 16 | - | - | (6 683) | - | (6 683) | - | (6 683) |
| Foreign exchange impact on Non-controlling interest | - | - | - | - | - | - | 91 | 91 |
| | | <u>-</u> | <u>-</u> | <u>(6 683)</u> | <u>-</u> | <u>(6 683)</u> | <u>91</u> | <u>(6 592)</u> |
| Net income for the three months | - | - | - | 4 165 | - | 4 165 | 43 | 4 208 |
| Other comprehensive loss | - | - | - | - | (19 633) | (19 633) | (167) | (19 800) |
| Comprehensive income (loss) | | <u>-</u> | <u>-</u> | <u>4 165</u> | <u>(19 633)</u> | <u>(15 468)</u> | <u>(124)</u> | <u>(15 592)</u> |
| As at March 31, 2021 | 18 | <u>32 400 585</u> | <u>286 975</u> | <u>50 832</u> | <u>15 280</u> | <u>353 087</u> | <u>1 390</u> | <u>354 477</u> |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Inovalis Real Estate Investment Trust
Interim Consolidated Statements of Cash Flows
For the three months ended March 31,
(Unaudited)

(All dollar amounts in thousands of Canadian dollars)

| | <i>Note</i> | 2021 | 2020 |
|--|-------------|----------------|-----------------|
| Operating activities | | | |
| Income before income taxes | - | 4 330 | 32 328 |
| Interest received | - | 652 | 2 303 |
| Interest paid | - | (1 877) | (1 867) |
| Income tax paid | - | (27) | (9) |
| Distributions in respect of exchangeable securities paid in cash | 11 | (237) | (158) |
| Adjustments for non-cash items and other reconciling items | 22 | (2 007) | (30 204) |
| | | <u>834</u> | <u>2 393</u> |
| Working capital adjustments | 22 | 1 685 | (14 629) |
| Net cash flows related to operating activities | | <u>2 519</u> | <u>(12 236)</u> |
| Investing activities | | | |
| Investment properties | 5 | (160) | (221) |
| Acquisition of subsidiary, net of cash acquired | 6 | - | 2 175 |
| Additional loan advances to joint ventures | 7 | (229) | - |
| Loan repayments received from joint ventures | 7 | 640 | 537 |
| Increase in financial current assets | - | - | 56 |
| Net cash flows related to investing activities | | <u>251</u> | <u>2 547</u> |
| Financing activities | | | |
| Distributions to unitholders | 16 | (6 682) | (4 957) |
| Issuance unit costs | 17 | - | (16) |
| Repayment of mortgage loans | 9 | (1 081) | (692) |
| Repayment of lease liabilities | 9 | (1 650) | (1 452) |
| Repayment of interest bearing loan | - | (45) | - |
| Repayment of lease equalization loans | - | (185) | (1 397) |
| Net cash flows related to financing activities | | <u>(9 643)</u> | <u>(8 514)</u> |
| Net decrease in cash | | <u>(6 873)</u> | <u>(18 203)</u> |
| Effects of foreign exchange adjustments on cash | - | (3 971) | 4 160 |
| Cash at the beginning of the period | | <u>80 376</u> | <u>83 409</u> |
| Cash at the end of the period | | <u>69 532</u> | <u>69 366</u> |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Inovalis Real Estate Investment Trust
Notes to the condensed interim consolidated financial statements
March 31, 2021

Note 1 – Organization

The Inovalis Real Estate Investment Trust (the “Trust”) is an open-ended real estate investment trust created pursuant to a Declaration of Trust dated February 8, 2013, under the laws of the Province of Ontario, Canada. These Consolidated Financial Statements include the accounts of the Trust and its subsidiaries (together the “REIT”). The REIT’s investment property portfolio, owned directly or through joint arrangements, is comprised of office rental properties located in France and Germany.

The REIT’s head and registered office is located at 151 Yonge Street, 11th floor, Toronto, Ontario, M5C 2W7. The REIT’s units are listed on the Toronto Stock Exchange (“TSX”) under the symbol INO.UN.TO.

The REIT’s Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2021, were authorized for issuance by the Board of Trustees on May 12, 2021..

The REIT has hired Inovalis S.A. (“Inovalis SA”), a real estate asset manager having operations in France and Germany, to manage certain functions. Refer to Note 1 of the 2020 annual consolidated financial statements for more information about the relationship between Inovalis SA and the REIT, and to Note 20 in these condensed interim consolidated financial statements, for information regarding the services provided by Inovalis SA to the REIT.

Inovalis SA is considered as a related party of the REIT as they share the same management. The founder and Chairman of Inovalis S.A. is President of the REIT, the Chief Executive Officer (“CEO”) of Inovalis S.A. is also CEO of the REIT, and the Deputy Chief Executive Officer of Inovalis S.A. is Chief Investment Officer (“CIO”) and Chief Financial Officer (“CFO”) of the REIT.

Note 2 – Basis of presentation and statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”), and thus do not contain all of the disclosures applicable to the annual audited consolidated financial statements.

These condensed interim consolidated financial statements use the same accounting policies and methods of their application as the REIT’s most recent annual consolidated financial statements and should be read in conjunction with the 2020 annual audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB.

Note 3 – Recent Accounting Pronouncements Adopted

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an Interbank Offered Rate (“IBOR”) with a Risk Free Rate (“RFR”).

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a RFR.

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are allowed as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

Note 3 – Recent Accounting Pronouncements Adopted (Cont'd)

IBOR reform Phase 2 provides temporary reliefs that allow the REIT's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the REIT to amend the hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and/or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. The reliefs allow that changes to the method for assessing hedge effectiveness due to modifications required by IBOR reform, will not result in the discontinuation of hedge accounting.

The REIT has applied IBOR reform Phase 2 from January 1, 2021. The amendments had no impact on the REIT's Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2021 as to date, no existing interest rate benchmarks had been replaced by RFRs. Management is currently assessing the impact that any future replacements of interest rate benchmarks by RFRs may have on the REIT as a result of application of IBOR reform Phase 2. The REIT intends to use the practical expedients in future periods if they become applicable.

Note 4 – Critical Accounting Judgments and Estimates

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the REIT's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2020.

Note 5 – Investment properties

Reconciliations of the carrying amounts of investment properties at the beginning and end of the current financial period are as follow:

| | For the three months ended March 31, 2021 | For the year ended December 31, 2020 |
|---|--|---|
| Balance, beginning of period | 541 218 | 478 700 |
| Capex | 192 | 1 968 |
| Acquisition of Bad Homburg investment property held by Walpur 4 | - | 35 057 |
| Change in capitalized letting fees | (32) | 203 |
| Rent free periods | 173 | 241 |
| Net change in fair value of investment properties | 1 710 | (7 431) |
| Foreign currency translation adjustment | (28 565) | 32 480 |
| Balance, end of period | 514 696 | 541 218 |

Appraisal capitalization and discount rates

The fair value of investment properties is determined by real estate valuation experts using recognized valuation techniques and the principles of IFRS 13 *Fair Value Measurement*. The technique used by the REIT is the Direct Capitalization Method ("DC").

Under the DC method, the cash generated during the term of the lease as well as the cash generated at reversion, are capitalized using the same capitalization rate. The capitalization rates are determined based on recent real estate transactions with similar characteristics and location to those of the REIT assets.

Note 5 – Investment properties (Cont'd)

Emergency measures enacted by governments in response to the COVID-19 pandemic, including travel restrictions, physical distancing, and temporary closure of non-essential businesses, have created estimation uncertainty in the determination of the fair market value of investment property as at March 31, 2021. There has been a scarcity of recently observed market transactions to support changes in the discount and capitalization rates, as well as market rents. The REIT has made assumptions with respect to the duration and severity of these emergency measures as well as the duration of the subsequent economic recovery in estimating the amount and timing of the cash flows generated from investment properties and used in determination of fair value of the investment properties as at March 31, 2021.

The REIT's investment properties were last appraised by an external valuator as at December 31, 2020. The adjusted market-value and stabilized capitalization rates by country are set out in the following table:

| | As at March 31, 2021 | | | As at December 31, 2020 | | |
|--|------------------------------|------------------------------|----------------|------------------------------|------------------------------|----------------|
| | France | Germany | Total | France | Germany | Total |
| Fair value of investment properties for financial reporting purposes | | | | | | |
| Market value (in Euros) as estimated by external appraisers | 284 684 | 68 700 | 353 384 | 281 350 | 68 700 | 350 050 |
| IFRIC 21 adjustment | (1 466) | - | (1 466) | - | - | - |
| Option costs | (2 640) | - | (2 640) | (2 112) | - | (2 112) |
| Adjusted market value in Euros | 280 578 | 68 700 | 349 278 | 279 238 | 68 700 | 347 938 |
| Exchange adjustment | 132 882 | 32 536 | 165 418 | 155 117 | 38 163 | 193 280 |
| Adjusted market value in CAD\$ | 413 460 | 101 236 | 514 696 | 434 355 | 106 863 | 541 218 |
| Principal method used to value property | | | | | | |
| | Direct Capitalization Method | Direct Capitalization Method | | Direct Capitalization Method | Direct Capitalization Method | |
| Capitalization rate | 4.20% to 7.00% | 4.90% to 5.75% | | 4.20% to 7.00% | 4.90% to 5.75% | |
| Terminal capitalization rate | 5.37% | 4.9% | | 5.37% | 4.9% | |
| Impact on the fair value of investment properties of : | | | | | | |
| an increase of 25 bps on the cap rate | (18 954) | (4 693) | (23 647) | (19 896) | (4 954) | (24 850) |
| a decrease of 25 bps on the cap rate | 20 938 | 5 176 | 26 114 | 21 978 | 5 463 | 27 441 |

Right-of-use asset

The REIT leases various investment properties with a carrying amount of \$240,415 (2020 – \$251,703) under leases which begin to expire in approximately 6.5 years (2020: 7 years).

Note 6 – Acquisition of investment properties

Transaction that occurred in 2020 - Walpur

On July 27, 2020, the REIT entered into an agreement with its joint venture partner to buy-back the 50% interest held in Walpur by its joint venture partner. The transaction was closed on October 27, 2020 and is in line with the REIT's strategy to buy-back joint ventures in order to simplify ownership structure. The REIT purchased 50% of the shares of Walpur 4 and an interest-bearing loan owned by the seller for total consideration of €7,057 (\$10,975), including transaction costs of €1,190 (\$1,851).

The REIT has elected to apply the "concentration test" in accordance with IFRS 3. As the fair value of the gross assets acquired is substantially concentrated in the Walpur property, the transaction has been qualified as an acquisition of assets.

The Walpur acquisition includes an unrecognized deferred tax liability of €1,421 (\$2,210) in relation to the IAS 12 recognition exemption on acquisition of assets. The REIT has elected to remeasure its previously held interests in the acquired assets and liabilities to their acquisition-date-fair values, resulting in a gain on remeasurement of €135 (\$207) that was recorded in Q4 of 2020.

Note 7 – Investments in joint ventures

Outlined below is a breakdown of the carrying amounts of the components of the investments in joint ventures:

| | CCD | Walpur | Arcueil | Cologne | Stuttgart | Delizy | Neu Isenburg | Kösching | SCCV | Total |
|---|---------------|--------------|---------------|--------------|---------------|--------------|---------------|---------------|--------------|----------------|
| Balance -December 31, 2019 | 26 296 | 9 518 | 14 416 | 955 | 17 531 | 8 479 | 13 505 | 10 082 | - | 100 782 |
| Additional investment of the period | 673 | - | - | - | - | 558 | - | - | - | 1 231 |
| Acquisition costs | - | - | - | - | - | - | - | - | 396 | 396 |
| Investment from exercise of call option | - | - | - | - | - | - | - | - | 14 218 | 14 218 |
| Distribution from joint ventures | - | - | - | - | - | - | - | - | (12 430) | (12 430) |
| Share of net (loss) income from investments ¹ | (5 817) | (15) | (17) | 46 | (6) | (1 219) | 208 | 681 | - | (6 139) |
| Impairment of investment in joint ventures | - | - | - | - | - | - | - | - | (385) | (385) |
| Accrued interest on loan receivable prior to acquisition of control | - | 28 | - | - | - | - | - | - | - | 28 |
| Loan to joint ventures repayments | - | - | - | - | (754) | - | (1 476) | (651) | - | (2 881) |
| Exchange differences | 1 701 | 645 | 6 | 66 | 1 179 | 565 | 897 | 686 | 3 | 5 748 |
| Acquisition of control | - | (10 176) | (14 405) | - | - | - | - | - | - | (24 581) |
| Balance - December 31, 2020 | 22 853 | - | - | 1 067 | 17 950 | 8 383 | 13 134 | 10 798 | 1 802 | 75 987 |
| Additional loan advances to joint ventures | - | - | - | - | - | 229 | - | - | - | 229 |
| Share of net (loss) income from investments ¹ | (150) | - | - | - | 343 | (132) | 219 | 182 | (33) | 429 |
| Loan to joint ventures repayments | - | - | - | - | (243) | - | (225) | (172) | - | (640) |
| Exchange differences | (1 198) | - | - | (56) | (949) | (445) | (691) | (569) | (94) | (4 002) |
| Balance - March 31, 2021 | 21 505 | - | - | 1 011 | 17 101 | 8 035 | 12 437 | 10 239 | 1 675 | 72 003 |

(1) The share of net earnings includes the interest expense in relation to the loans granted to the joint ventures. The interest earned by the REIT in relation to these loans amounts to \$880 (2020 – \$984) and are included in “Finance income” (see note 15).

The balance of investments in joint ventures as at March 31, 2021 includes loans to joint ventures for an amount of \$37,872 which is detailed as follows:

| Loans to joint ventures | CCD ⁽¹⁾ | Cologne | Stuttgart | Delizy | Neu Isenburg | Kösching | Total |
|-----------------------------|--------------------|------------|------------|------------|--------------|------------|--------|
| Balance - March 31, 2021 | 15 316 | 778 | 10 724 | 8 035 | 1 584 | 1 435 | 37 872 |
| Balance - December 31, 2020 | 16 167 | 821 | 11 568 | 8 383 | 2 077 | 1 515 | 40 531 |
| Maturity date | 12/31/2022 | 11/06/2024 | 05/30/2023 | 08/31/2022 | 12/29/2023 | 12/31/2023 | |
| Interest rate | 10% | 10.5% | 6.5% | 9% | 8.7% | 6.5% | |

(1) On April 19, 2021, the REIT extended the Joint Venture Agreement with the Kuwaiti partner in the Duisburg property for an additional two years, maturing at the end of December 2022.

2021

Repayments on loans to joint ventures

During the quarter ended March 31, 2021, loan repayments of \$243 (€159), \$225 (€148), and \$172 (€113) occurred respectively for Stuttgart, Neu-Isenburg and Kösching.

2020

Walpur

In accordance with the agreement signed between the two investors on July 27, 2020, the co-investor to the Walpur joint venture, holding 50% interest, was bought out of the partnership on October 27, 2020. Previously, the joint venture was accounted for using the equity method, see Note 6 for further discussion of the acquisition.

SCCV Rueil Le Lumiere

In December 2016, the REIT funded an acquisition and development loan for an asset located at 17/19 Rue des Deux Gares 92500 Rueil Malmaison. The financing arrangement was issued to SCCV Rueil Le Lumiere (“SCCV”) in relation to development of the commercial property. In October 2020, the commercial property was developed and sold.

The financing for the property investment had been structured in tandem with a call option agreement dated December 22, 2016 between the REIT and Neo Soleil SAS, an entity controlled by Inovalis SA. On October 2, 2020, the REIT exercised the call option related to the acquisition loan and acquired 20% equity interest in SCCV that was previously held by Neo Soleil SAS for a nominal purchase price. The call option was exercised by the REIT to materialize the gain on the sale of the commercial property. The REIT also incurred transaction costs of €252 (\$391) relating to the acquisition.

Note 7 – Investments in joint ventures (Cont'd)

2020 (Cont'd)

Arcueil

In accordance with the agreement signed between the two investors on December 18, 2019, the partner to the Arcueil joint venture, holding 75% interest, was bought out of the partnership on January 22, 2020.

Repayments on loans to joint ventures

During the year ended December 31, 2020, loan repayments of \$754 (€451), \$1,476 (€922) and \$651 (€350) occurred respectively for Stuttgart, Neu-Isenburg and Kösching.

Note 8 – Trade and other receivables

| | As at March 31, 2021 | As at December 31, 2020 |
|---|----------------------|-------------------------|
| Trade receivables | 5 216 | 3 577 |
| Provision for impairment of trade receivables | (224) | (60) |
| Trade receivables | 4 992 | 3 517 |
| Other receivables | 1 611 | 1 731 |
| Other receivables - Inovalis SA | 207 | 269 |
| Interest receivable - Joint ventures | 1 193 | 1 106 |
| Other current financial assets | 3 011 | 3 106 |
| Total trade receivables and other financial assets | 8 003 | 6 623 |

Note 9 – Mortgage loans and lease liabilities

Mortgage loans and leases liabilities consist of the following:

| As at March 31, 2021 | | | | | | | |
|---|----------------------------------|-----------------------------------|--------------------|------------|----------------|----------------|---------------|
| Entity | Nominal value (in 000's of €) | Nominal value (in 000's of \$) | Interest rate | Maturity | Total | Non-current | Current |
| Mortgage loan - Jéineurs SCI | 27 035 | 39 839 | Euribor 3M + 1.75% | 26/10/2027 | 39 622 | 38 256 | 1 366 |
| Mortgage loan - Véronèse SCI | 7 903 | 11 646 | Euribor 3M + 1.90% | 21/03/2031 | 11 490 | 10 570 | 920 |
| Mortgage loan - Sablière SCI | 11 610 | 17 108 | Euribor 3M + 1.59% | 23/06/2026 | 17 198 | 16 115 | 1 083 |
| Mortgage loan - Cancorp Trio | 30 576 | 45 057 | 1.56% | 15/03/2024 | 44 968 | 44 332 | 636 |
| Mortgage loan - Baldi SCI | 12 965 | 19 105 | Euribor 3M + 1.75% | 26/10/2027 | 19 066 | 18 259 | 807 |
| Mortgage loan - Walpur Four | 11 100 | 16 357 | 1.43% | 31/03/2022 | 16 311 | - | 16 311 |
| Mortgage loans | 101 189 | 149 112 | | | 148 655 | 127 532 | 21 123 |
| Lease liabilities - Arcueil SCI | 38 836 | 57 229 | Euribor 3M + 2.20% | 08/07/2027 | 62 128 | 57 555 | 4 573 |
| Lease liabilities - Metropolitan SCI | 40 878 | 60 238 | Euribor 3M + 1.84% | 18/03/2031 | 59 464 | 56 734 | 2 730 |
| Lease liabilities | 79 714 | 117 467 | | | 121 592 | 114 289 | 7 303 |
| Total mortgage loans and lease liabilities | 180 903 | 266 579 | | | 270 247 | 241 821 | 28 426 |

| As at December 31, 2020 | | | | | | | |
|---|----------------------------------|-----------------------------------|--------------------|------------|----------------|----------------|---------------|
| Entity | Nominal value (in 000's of €) | Nominal value (in 000's of \$) | Interest rate | Maturity | Total | Non-current | Current |
| Mortgage loan - Jéineurs SCI | 27 268 | 42 415 | Euribor 3M + 1.75% | 26/10/2027 | 42 176 | 40 751 | 1 425 |
| Mortgage loan - Véronèse SCI | 8 057 | 12 533 | Euribor 3M + 1.90% | 21/03/2031 | 12 361 | 11 399 | 962 |
| Mortgage loan - Sablière SCI | 11 745 | 18 269 | Euribor 3M + 1.59% | 23/06/2026 | 18 357 | 17 320 | 1 037 |
| Mortgage loan - Cancorp Trio 1 | 30 654 | 47 682 | 1.56% | 15/03/2024 | 47 055 | 46 569 | 486 |
| Mortgage loan - Baldi SCI | 13 100 | 20 377 | Euribor 3M + 1.75% | 26/10/2027 | 20 334 | 19 492 | 842 |
| Mortgage loan - Walpur Four | 11 100 | 17 266 | 1.43% | 31/03/2022 | 17 206 | 17 206 | - |
| Mortgage loans | 101 924 | 158 542 | | | 157 489 | 152 737 | 4 752 |
| Lease liabilities - Arcueil SCI | 39 529 | 61 487 | Euribor 3M + 2.20% | 08/07/2027 | 67 067 | 61 256 | 5 811 |
| Lease liabilities - Metropolitan SCI | 41 189 | 64 069 | Euribor 3M + 1.84% | 18/03/2031 | 63 220 | 60 557 | 2 663 |
| Lease liabilities | 80 718 | 125 556 | | | 130 287 | 121 813 | 8 474 |
| Total mortgage loans and lease liabilities | 182 642 | 284 098 | | | 287 776 | 274 550 | 13 226 |

Note 9 – Mortgage loans and lease liabilities (Cont'd)

The aggregate principal repayments and balances maturing on the lease liabilities during the period indicated, are as follows:

| | As at March 31, 2021 | | As at December 31, 2020 | |
|---|----------------------|------------------------|-------------------------|------------------------|
| | Carrying value | Minimum lease payments | Carrying value | Minimum lease payments |
| Within 1 year | 7 303 | 9 384 | 8 474 | 12 520 |
| After 1 year, but not more than 5 years | 26 699 | 34 084 | 28 288 | 36 245 |
| More than 5 years | 87 590 | 93 095 | 93 525 | 97 853 |
| | 121 592 | 136 563 | 130 287 | 146 618 |
| Less : future interest costs | - | (14 971) | - | (16 331) |
| Total lease liabilities | 121 592 | 121 592 | 130 287 | 130 287 |

Loan concessions

Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more economic uncertainty and expectations as compared to prior periods. At this time, the REIT has accepted deferral plans whenever proposed by banks / financial lessors, further to government incentives.

The REIT did not enter into any additional loan concessions during the three-months ended March 31, 2021.

Note 10 – Promissory notes

The REIT entered into three private placements in the form of Euro denominated interest bearing promissory notes (“Note 1”, “Note 2”, “Note 3” and collectively the “Promissory Notes”) through its subsidiary CCE to a single non-Canadian investor (the “Investor”). The REIT incurred issuance fees of 3% and may incur financing fees equal to the product of the amount of the monthly distribution payable on a REIT Unit that exceeds a stated amount (the “Distribution Threshold”) and the Equivalent REIT Units. CCE has the option to repay all or any portion of the promissory notes following the first anniversary of the issue date of each promissory note.

On the issue date of Note 1, Note 2 and Note 3, the Trust entered into put and call agreements with the investor. Pursuant to put and call agreements, the investor has the right to require the trust, beginning one year following the first anniversary of the issue date of the promissory note, to purchase all or any portion of the Promissory notes (the “Put Option”) for cash consideration equal to the amount of the Promissory Notes being acquired, divided by the applicable conversion rate applicable to the issuance of the Promissory Notes (the “Conversion Rate”) and multiplied by the market price of the units of the Trust at the time the Put Option is exercised.

The Trust has the right to require the investor to sell, at any moment, all or any portion of the Promissory Notes (the “Call Option”) by delivering Trust Units equivalent to the value of Promissory Notes being acquired divided by the applicable Conversion Rate. The Equivalent Trust Units are the number of units that the trust would have to be issued if required to settle the Put Option or the Call Option for all promissory notes by issuing units.

In October 2020, the Investor confirmed its intention to exercise the Put Option under the put/call agreement and redeem the entire outstanding principal amount of the three Promissory Notes. On November 3, 2020 the REIT entirely repaid Note 3 by delivering 2,121,008 units to the Investor. On November 5, 2020 the REIT entirely repaid Note 1 and Note 2 by delivering 1,280,208 and 1,087,911 units, respectively. Earlier in the year, the REIT issued 12,811 units related to a prior year partial repayment of Note 1. The fair value of the Promissory Notes (including the Put Option and Call Option) was €22,727 (\$35,034) as at the date of issuance of the units, which was based on the unit price as at the dates of issuance. The principal outstanding was \$45,370 as at the date of issuance. The promissory notes, including the put/call options, were measured at their fair value immediately prior to exercise, meaning that no gain/loss resulted from the issuance of the units as consideration to repay the Notes.

Note 11 – Exchangeable securities

| Exchangeable securities issued and outstanding | Exchangeable securities | |
|---|-----------------------------------|--|
| | Number of Exchangeable securities | Carrying amount of Exchangeable securities |
| Balance - December 31, 2019 | 897 082 | 9 562 |
| Asset management fees paid in exchangeable securities | 216 581 | 1 537 |
| Net change in fair value of exchangeable securities | - | (1 154) |
| Balance - December 31, 2020 | 1 113 663 | 9 945 |
| Net change in fair value of exchangeable securities | - | 679 |
| Balance - March 31, 2021 | 1 113 663 | 10 624 |

Distribution in respect of Exchangeable Securities:

The Exchangeable Securities entitle the holders, Inovalis SA, to cash distributions from CCE equal, on a per unit basis to the distributions paid to holders of units by the REIT.

The following table breaks down distribution payments for distributions on exchangeable securities:

| | For the three months ended March 31, 2021 | For the three months ended March 31, 2020 |
|---|---|---|
| Amount payable at the beginning of the period | 265 | 250 |
| Declared and recognized in earnings during the period | 230 | 190 |
| Distribution on exchangeable securities paid in cash | (237) | (158) |
| Amount payable at the end of the period | 258 | 282 |

Note 12 – Trade and other payables

| | Note | As at March 31, 2021 | As at December 31, 2020 |
|---------------------------------------|------|----------------------|-------------------------|
| Trade payables | | 4 337 | 3 978 |
| Trade payables - Inovalis SA | 20 | 1 862 | 388 |
| Trade payables | | 6 199 | 4 366 |
| Other payables | | 2 794 | 2 181 |
| Other payables - Joint ventures | | 980 | 899 |
| Distributions payable | 16 | 2 228 | 2 227 |
| Distributions payable - Inovalis SA | 20 | 258 | 265 |
| VAT payable | | 883 | 1 114 |
| Other payables | | 7 143 | 6 686 |
| Total trade and other payables | | 13 342 | 11 052 |

Note 13 – Revenue from investment properties

Revenue from investment properties consists of the following:

| | For the three months ended March 31, 2021 | For the three months ended March 31, 2020 |
|--|---|---|
| Regular rents | 7 226 | 6 890 |
| Amortization of rent free periods (lease incentives) | 194 | (12) |
| Rental income | 7 420 | 6 878 |
| Property operating cost recoveries | 2 041 | 1 571 |
| Total revenue | 9 461 | 8 449 |

Note 13 – Revenue from investment properties (Cont'd)

The property operating cost recoveries were as follows:

| | For the three months ended March 31, 2021 | For the three months ended March 31, 2020 |
|---|---|---|
| Taxes | 634 | 602 |
| Insurance | 111 | 23 |
| Property management fees | 316 | 318 |
| Utilities and other cost recoveries | 980 | 628 |
| Property operating cost recoveries | 2 041 | 1 571 |

Note 14 – Expenses

Property operating costs consist of the following:

| | For the three months ended March 31, 2021 | For the three months ended March 31, 2020 |
|---------------------------------------|---|---|
| Property tax expense | (2 995) | (2 881) |
| Insurance | (131) | (27) |
| Property management fees | (333) | (343) |
| Utilities | (1 423) | (920) |
| Total property operating costs | (4 882) | (4 171) |

In accordance with IFRS Interpretations Committee (IFRIC) 21, Levies, the REIT recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. For the three months ended March 31, 2021, the amount recognized is \$2,236 (2020 - \$2,074).

General and administrative expenses consist of the following:

| | For the three months ended March 31, 2021 | For the three months ended March 31, 2020 |
|--|---|---|
| Asset management fees - Inovalis SA | (739) | (749) |
| Less : amount invoiced to joint ventures | 304 | 318 |
| | (435) | (431) |
| Professional fees for accounting, tax and audit | (981) | (991) |
| Legal expenses | (610) | (484) |
| Trustee fees | (227) | (137) |
| Travel expenses | (3) | (47) |
| Bank expenses | (22) | (54) |
| Other general and administrative expenses | (183) | (98) |
| Total general and administrative expenses | (2 461) | (2 242) |

Note 15 – Finance costs and finance income

| | For the three months ended March 31, 2021 | For the three months ended March 31, 2020 |
|--|---|---|
| Interest costs related to mortgage loans | (883) | (588) |
| Interest costs related to leases liabilities | (537) | (576) |
| Interest costs related to lease equalization loans | (10) | (27) |
| Interest costs related to promissory notes | - | (873) |
| | (1 430) | (2 064) |
| Interest SWAP & CAP | (158) | (314) |
| Other finance costs | (92) | (12) |
| | (1 680) | (2 390) |
| Amortization of transaction costs on mortgage loans | (25) | (78) |
| Finance costs | (1 705) | (2 468) |
| Finance income from a company controlled by Inovalis SA relating to the acquisition loan | - | 802 |
| Finance income from joint venture loans | 880 | 984 |
| Other finance income | - | 479 |
| Finance income | 880 | 2 265 |

Note 16 – Distributions

| | Note | For the three months ended March 31, 2021 | For the three months ended March 31, 2020 |
|--|------|---|---|
| Amount payable at the beginning of the period | | 2 227 | 1 978 |
| Declared and recognised during the period | | 6 683 | 5 942 |
| Distributions paid in units | | - | (980) |
| Paid in cash | | (6 682) | (4 957) |
| Amount payable at the end of the period | 12 | 2 228 | 1 983 |

The amount of distributions payable is included in the “Trade and other payables”.

Note 17 – Trust Units

The REIT is authorized to issue an unlimited number of units and an unlimited number of Special Voting Units.

The beneficial interests of the REIT are comprised of a single class of units which represent a unitholders’ proportionate undivided beneficial interest in the REIT. No unit has any preference over any other unit. Each unit confers the right to one vote at any meeting of unitholders and to participate on a pro rata basis in any distributions by the REIT and, in the event of the termination of the REIT, in the net assets of the REIT remaining after the settlement of all liabilities of the Trust. The units of the Trust are redeemable at the demand of the unitholders at the fair market value of the units at that time.

Special Voting Units have no economic entitlement in the REIT but entitle the holder to one vote per Special Trust Unit at any meeting of the unitholders of the REIT. Special Voting Units may only be issued in connection with or in relation to Exchangeable Securities (see Note 11 – Exchangeable Securities) for the purpose of providing voting rights with respect to the REIT to the holders of such securities. As at March 31, 2021, 1,113,663 Special Voting Units were issued and outstanding (December 31, 2020 – 1,113,663).

A Distribution Reinvestment Plan (“DRIP”) has been put in place starting from the July 2013 distribution, providing unitholders with the opportunity to accumulate additional units plus additional bonus units in an amount equal to three percent of the distributions reinvested by the unitholders (see Note 19 – Unit Based Compensation Plan). Until further notice, in response to the market disruption caused by the COVID-19 pandemic, the REIT has suspended its Distribution Reinvestment and Unit Purchase Plan (the “DRIP”) effective as of the distribution payable on May 15, 2020 to unitholders of record as at April 30, 2020.

Note 17 – Trust Units (Cont'd)

Normal course issuer bid

On April 17, 2020 the Toronto Stock Exchange (the "TSX") approved the REIT's intention to make a normal course issuer bid ("NCIB") to acquire up to a maximum of 2,622,412 of its units, or approximately 10% of its public float as of April 15, 2020 over the next 12 months for cancellation.

The number of units that can be purchased pursuant to the NCIB is subject to a current daily maximum of 20,890 units, subject to the REIT's ability to make one block purchase of units per calendar week that exceeds such limits.

During the three months ended March 31, 2021, the REIT did not repurchase or cancel any units.

On March 23, 2021, the Board of Trustees approved the termination of the NCIB, effective April 2021.

Note 18 – Accumulated other comprehensive income

| | As at March 31, 2021 | As at December 31, 2020 |
|--|----------------------|-------------------------|
| Net unrealized loss on derivatives designated as a hedge of the net investment in foreign entities | (866) | (676) |
| Cumulative translation adjustment account | 16 146 | 35 589 |
| Accumulated other comprehensive income | 15 280 | 34 913 |

Note 19 - Unit-based compensation plan

The REIT through its Deferred Share Unit ("DSU") Plan, grants DSU's to its trustees and senior officers as non-cash compensation. These DSU's are measured at fair value at the grant date and compensation expense is recognized consistent with the vesting features of the plan. The DSU plan is accounted for as a cash-settled award as the underlying REIT units are redeemable at the sole discretion of the unitholders for cash at market value of the units. For cash-settled awards, the REIT recognizes a liability measured at its fair value. At each reporting date until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognised as compensation expense for the same period. Upon settlement of a DSU, the liability balance is reduced and the resulting Trust Unit is recorded in equity.

Effective May 15, 2019, the REIT's unitholders approved a DSU Plan to grant DSUs to its trustees and senior officers and reserved a maximum of 200,000 units for issuance under the plan. A DSU is a unit equivalent in value to one trust unit of the REIT. The DSU Plan permits the REIT's trustees to defer receipt of all or a portion of their trustee fees until termination of the trustee service and to receive such fees in the form of trust units at that time ("Elected DU"). Elected DU will vest immediately upon grant.

The DSU Plan allows the Board of Trustees to grant DSUs to its senior officers at the Board's discretion ("Granted DU"). The Granted DU will vest 1/3 over each anniversary date from date of grant over three years. The cost of Granted DU is recognized in the interim consolidated statement of earnings consistent with the vesting feature of each grant.

In addition, whenever cash distributions are paid on the REIT's Trust Units, additional deferred units ("ADU") shall be granted based on aggregate number of vested DSUs as at the same date.

| | As at March 31, 2021 | As at December 31, 2020 |
|-------------------------------------|----------------------|-------------------------|
| Outstanding at beginning of period | 48 850 | 11 782 |
| Granted DU | - | 19 093 |
| Elected DU | - | 17 051 |
| Cancelled DU | (6 166) | - |
| ADUs earned | - | 924 |
| Outstanding at end of period | 42 684 | 48 850 |

Note 19 - Unit-based compensation plan (Cont'd)

As of March 31, 2021, 42,684 DSUs are outstanding and 157,316 DSUs are available for grant under the DSU Plan.

For the three months ended March 31, 2021, the REIT recorded a recovery of \$3 and a decrease to the liability for the same amount. The total liability related to the DSU plan as of March 31, 2021 was \$304 and was included in Trade and other payables.

Note 20 – Transactions with related parties

Inovalis SA – Asset manager

Pursuant to the Management Agreement, Inovalis SA is the asset manager of the REIT and provides the strategic, advisory, asset management, project management, construction management, property management and administrative services necessary to manage the operations of the REIT and its subsidiaries.

Unless otherwise stated, none of these transactions incorporated special terms and conditions. Outstanding balances are usually settled in cash, except for management fees to Inovalis SA that were settled quarterly through the issuance of exchangeable securities until Q1 2018 (refer to Note 11 - Exchangeable Securities). The amended management agreement allows for the management fees can be settled quarterly through the issuance of either exchangeable securities or in cash. From Q2 2018 to Q4 2020, the management fees were settled half in exchangeable securities and half in cash based on the REIT's projected cash requirements and following the approval of the Board of Trustees. In Q1 2021, the management fees were settled fully in cash.

| Inovalis and its subsidiaries | Financial statement line item | Note | For the three months ended March 31, 2021 | For the three months ended March 31, 2020 |
|--|--|------|---|---|
| Revenues | | | | |
| Interest income from acquisition loan | Finance income | 15 | - | 802 |
| | | | <u>-</u> | <u>802</u> |
| Expenses | | | | |
| Asset management fees | Administration expenses | A | (435) | (431) |
| Facilities management fees | Service charge expenses | | (43) | (55) |
| Property management Fees | Service charge expenses | B | (360) | (343) |
| Expenses related to the distribution for exchangeable securities | Distributions on exchangeable securities | | (230) | (190) |
| Interest expense on lease equalization loans | Finance costs | 15 | (10) | (27) |
| Reimbursement of travel expenses | Administration expenses | | (3) | (47) |
| Trustee fees | Administration expenses | | (227) | (137) |
| | | | <u>(1 308)</u> | <u>(1 230)</u> |
| Liabilities | | | | |
| Exchangeable securities issued for the period | Exchangeable securities | | - | 367 |
| | | | <u>-</u> | <u>367</u> |

- (A) Asset management fees of \$739 and \$749 as at March 31, 2021, and March 31, 2020 respectively, correspond to the asset management fees earned for the entire portfolio, including \$304 and \$318 attributable to assets held through joint ventures. Fees are payable in cash and/or exchangeable securities, the exact composition of which is determined by the Board annually.
- (B) An annual property management fee (the "Property Management Fee") in an amount equal to 3.0% of the gross revenue of the properties, approximately 90% of which is rebilled to tenants.

Note 20 – Transactions with related parties (Cont'd)

| Inovalis and its subsidiaries | Note | Due from (to) Inovalis SA | |
|-------------------------------|------|---------------------------|-------------------------|
| | | As at March 31, 2021 | As at December 31, 2020 |
| Assets | | | |
| Trade and other receivables | | 207 | 269 |
| | | <u>207</u> | <u>269</u> |
| Liabilities | | | |
| Interest-bearing loan | | 431 | 510 |
| Lease equalization loans | | 173 | 371 |
| Distributions payable | 16 | 258 | 265 |
| Exchangeable securities | 11 | 10 624 | 9 945 |
| Trade and other payables | | 1 862 | 388 |
| | | <u>13 348</u> | <u>11 479</u> |

In performing its obligations under the Management Agreement, Inovalis SA is entitled to receive the following fees from the REIT:

- A. An annual asset management fee in the amount of 0.5% of assets under management
- B. A facility management fee related to the management of service charges that are rebilled directly to tenants;
- C. A leasing fee in an amount equal to (i) 10% of the first-year annual rent for lease renewals signed by existing tenants, or (ii) 20% of the first-year annual rent for leases by new tenants;
- D. A construction management fee in respect of capital projects in an amount equal to 5% of all hard construction costs incurred on a project;
- E. An acquisition fee in the amount of 1% of the purchase price of any property acquired (excluding of properties owned or managed by the Manager);
- F. An annual property management fee (the “Property Management Fee”) in an amount equal to 3.0% of the gross revenue of the properties, unless otherwise stipulated in any tenant lease provided the Property Management Fee is fully recoverable by the landlord.

Certain service charge expenses and other costs are paid to third parties by Inovalis SA and its subsidiaries on behalf of the REIT and are reimbursed from time to time.

On March 24, 2021, the Board of Trustees approved a two-year extension of the Management Agreement with Inovalis SA that became effective on April 1, 2021.

The following modifications were approved in the amended and restated management agreement:

- **Term:** The extension is for two (2) years ending on March 31, 2023. The agreement may be renewed upon mutual agreement of the parties for an additional term of one (1) year.
- **Asset Management Fees:** Will be calculated as a percentage of Assets Under Management in accordance with the following scale:

| Assets Under Management | Annual Asset Management Fee |
|-------------------------------------|-----------------------------|
| On the first \$1.0 billion | 0.5% |
| From \$1.0 billion to \$2.0 billion | 0.4% |
| On \$2.0 billion and over | 0.3% |

The asset management fee will be further reduced by \$500,000 once the REIT Finance Function Internalization is completed.

- **Disposition Fees:** Inovalis S.A. will receive a cash fee equal to (a) 1.0% of the gross proceeds resulting from any disposition of a property completed by Inovalis S.A. or (b) 0.5% of Assets Under Management in the event of (i) a change of control of the REIT which results in a termination of the management agreement, (ii) a sale of all or substantially all of the assets of the REIT, or (iii) a sale or other disposition of CanCorpEurope S.A. (referred to as Luxco). In all cases, a disposition fee will only be payable to the extent that the net proceeds of any sale or disposition are paid to or distributed as a special distribution to Unitholders of the REIT. Furthermore, only one disposition fee shall be payable for each individual asset disposed of, and no disposition fee shall be payable on a change of control of the REIT to the extent that Inovalis S.A. takes any action to oppose the change of control.

Note 20 – Transactions with related parties (Cont'd)

- G&A Budget:** The REIT and Inovalis S.A. will agree to a budget for general and administrative expenses on an annual basis (the “G&A Budgeted Amount”), with any additional proposed expenditures to be approved by the Audit Committee of the REIT. Inovalis S.A. will be obligated to reimburse the REIT for amounts in excess of the G&A Budgeted Amount based on a scale. In the event that the actual G&A expenses of the REIT are significantly less than the G&A Budgeted Amount, the REIT shall pay to Inovalis S.A. an additional fee based on the percentage of the savings in accordance with the following scale:

| Percentage of Excess under G&A Budgeted Amount | Percentage of Saved G&A to be paid by the REIT to Inovalis SA |
|---|--|
| 0% - 10% | Nil |
| 10% - 15% | 20% |
| 15% - 20% | 30% |
| 20% - 25% | 50% |
| 25%+ | 100% |

- Manager Reimbursement:** The Manager will reimburse the REIT for any general and administrative expenses in excess of the Annual G&A Budgeted Amount in accordance with the following scale:

| Percentage of Excess over G&A Budgeted Amount | Percentage of Excess G&A to be reimbursed by Inovalis S.A. to the REIT |
|--|---|
| 0% - 10% | Nil |
| 10% - 15% | 20% |
| 15% - 20% | 30% |
| 20% - 25% | 50% |
| 25%+ | 100% |

Also, from January 1, 2021 until the completion of the REIT Finance Function Internalization, Inovalis S.A. will reimburse the REIT for 50% of all costs related to the REIT Finance Functions.

- Change of Control:** Upon the occurrence of a change of control of the REIT, the Board of Trustees has the option to terminate the Management Agreement, exercisable within 90 days.

Joint ventures

The transactions and balances with joint ventures entities are summarized below:

| | Financial statement line item | For the three months ended March 31, 2021 | For the three months ended March 31, 2020 |
|--|---|---|---|
| Management fees invoiced to joint ventures | Administration expenses | 304 | 318 |
| Property management fees | Service charge expenses | (71) | - |
| Letting fees invoiced | Service charge expenses | (2) | - |
| less portion accounted for over the lease term | Service charge expenses | 2 | - |
| Finance income | Finance income | 880 | 984 |
| | | <u>1 113</u> | <u>1 302</u> |
| | | <u>Due from joint ventures</u> | |
| | Financial statement line item | As at March 31, 2021 | As at December 31, 2020 |
| Assets | | | |
| Loan receivable | Investments accounted for using the equity method | 37 872 | 40 531 |
| Interest receivables | Other current assets | 1 193 | 1 106 |
| | | <u>39 065</u> | <u>41 637</u> |
| Liabilities | | | |
| Balance of sale payable | Trade and other payables | 980 | 899 |
| | | <u>980</u> | <u>899</u> |

For more information on joint ventures, please refer to Note 7 – Investments in joint ventures.

Note 20 – Transactions with related parties (Cont'd)

Remuneration of key management personnel

The following table presents the remuneration of key management personnel, which for the purposes of this note are defined as the members of the board of trustees as well as the officers of CanCorpEurope. The appointed officers of the REIT are employed and remunerated by Inovalis SA rather than the REIT, and the costs of their services are not invoiced distinctly from the overall asset management fees.

| | For the three months ended March 31, 2021 | For the three months ended March 31, 2020 |
|--------------------------------|--|--|
| Wages, fees and other benefits | (227) | (236) |
| | <u>(227)</u> | <u>(236)</u> |

Note 21 – Financial instruments and risk management

The following table shows an analysis of the fair values of financial instruments and non-financial assets measured at fair value on a recurring basis recognized on the consolidated balance sheet by the level of the fair value hierarchy. There are currently no items valued using Level 1 of the fair value hierarchy.

| | As at March 31, 2021 | | |
|--|-------------------------|---------|----------|
| | Level 2 | Level 3 | Total |
| Investment properties | - | 514 696 | 514 696 |
| Derivative financial instruments - assets | 659 | - | 659 |
| Derivative financial instruments - liabilities | (3 253) | - | (3 253) |
| Exchangeable securities | (10 624) | - | (10 624) |
| | | | |
| | As at December 31, 2020 | | |
| | Level 2 | Level 3 | Total |
| Investment properties | - | 541 218 | 541 218 |
| Derivative financial instruments - assets | 15 | - | 15 |
| Derivative financial instruments - liabilities | (5 473) | - | (5 473) |
| Exchangeable securities | (9 945) | - | (9 945) |

The REIT's financial assets and liabilities comprise cash, trade receivables, trade payables and accrued liabilities, mortgages loans and exchangeable securities. Fair values of financial assets and liabilities and discussion of risks associated with financial assets and liabilities are presented as follows.

Fair value of financial assets and liabilities

The fair values of cash, trade receivables, trade payables and accrued liabilities approximate their carrying values due to the short-term maturities of these instruments.

(a) Mortgage loans

Mortgage loans are carried at amortized cost using the effective interest rate method of amortization. The estimated fair values of long-term borrowings are based on market information, where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the REIT as at March 31, 2021.

Note 21 – Financial instruments and risk management (Cont'd)

Fair value of financial assets and liabilities (Cont'd)

(a) Mortgage loans (Cont'd)

The fair value of the mortgage loans has been determined by discounting the cash flows of these financial obligations using March 31, 2021, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at March 31, 2021 of the mortgage loans has been estimated at \$158,887 (December 31, 2020 – \$159,462) compared with the carrying value before deferred financing costs of \$148,655 (December 31, 2020 – \$157,489). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

(b) Exchangeable Securities

The fair value of the Exchangeable Securities is based on the quoted price of the REIT's own units, on the basis that they are exchangeable on a one to one basis throughout their life at the request of the unit holders. Other features of the Exchangeable Securities have no significant impact on their fair value.

Risks associated with financial assets and liabilities

The REIT is exposed to financial risks arising from its financial assets and liabilities. The financial risks include interest rate risk, credit risk and liquidity risk. The REIT's overall risk management program focuses on establishing policies to identify and analyze the risks faced by the REIT, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the REIT's activities. The REIT aims to develop a disciplined control environment in which all employees understand their roles and obligations.

The continued spread of the COVID-19 pandemic and the ensuing actions being taken by governments, businesses and individuals to limit its effects, including business closures, physical distancing and partial unemployment has impacted the global economy and the available income and liquidity of our tenants, effectively increasing the credit risk associated with our receivables, limiting our ability to respond quickly to changes in credit risk, extending the time to completion and occupancy of major assets and potentially reducing our ability to serve our tenants in the future. As at the end of March 2021, the potential impact of such uncertainties on our future financial results is difficult to reliably measure.

Fair value of financial assets and liabilities

The following table provides a comparison of the carrying amounts and fair value of the REIT's financial assets and liabilities that are not carried at fair value in the Consolidated Financial Statements.

| As at March 31, 2021 | Fair value hierarchy level | Carrying amount | Fair value |
|--------------------------------|----------------------------|-----------------|------------|
| Financial assets | | | |
| Loans to Joint Ventures | 3 | 37 872 | 37 872 |
| Financial liabilities | | | |
| Mortgage loans | 2 | 148 655 | 158 887 |
| Lease equalization loans | 2 | 173 | 173 |
| Tenant deposits | 2 | 1 794 | 1 794 |
| As at December 31, 2020 | | | |
| Financial assets | | | |
| Loans to Joint Ventures | 3 | 40 531 | 40 531 |
| Financial liabilities | | | |
| Mortgage loans | 2 | 157 489 | 159 462 |
| Lease equalization loans | 2 | 371 | 371 |
| Tenant deposits | 2 | 2 499 | 2 499 |

Note 22 – Cash flow information

| | Note | 2021 | 2020 |
|---|------|----------------|-----------------|
| Adjustments for non-cash items and other reconciling items: | | | |
| (Increase) decrease in rent free period | 5 | (173) | 12 |
| Management fees paid in exchangeable securities | 11 | - | 367 |
| Net change in fair value of investment properties | 5 | (1 710) | (1 702) |
| Change in classification of finance costs in relation to mortgage loans | 22 | 519 | - |
| Net change in fair value of financial derivatives | - | (2 834) | (122) |
| Distributions recognized on exchangeable securities | 11 | 230 | 190 |
| Net change in fair value of exchangeable securities | 11 | 679 | (4 307) |
| Net change in fair value of promissory notes | - | - | (21 752) |
| Finance income | 15 | (880) | (2 265) |
| Finance costs | 15 | 1 705 | 2 468 |
| Share of net earnings from investments in joint venture | 7 | (429) | (183) |
| Foreign exchange loss (gain) | - | 886 | (2 647) |
| Net change in fair value of acquisition loan | - | - | (263) |
| | | (2 007) | (30 204) |
| Working capital adjustments | | | |
| Increase in trade and other receivables | - | (1 486) | (1 393) |
| Decrease in tenant deposits | - | (619) | (331) |
| Increase (Decrease) in trade and other payables | - | 3 790 | (12 905) |
| | | 1 685 | (14 629) |

Cash and non-cash changes in liabilities arising from financing activities:

| Liabilities | As at December 31, 2020 | Cash-flows ¹ | | | | As at March 31, 2021 |
|--------------------------|-------------------------|-------------------------|--|---------------------------|--------------------|----------------------|
| | | | Reclassification of financing and deferral costs | Foreign exchange movement | Fair value changes | |
| Exchangeable securities | 9 945 | - | - | - | 679 | 10 624 |
| Mortgage loans | 157 489 | (1 081) | 519 | (8 272) | - | 148 655 |
| Lease liabilities | 130 287 | (1 650) | (250) | (6 795) | - | 121 592 |
| Lease equalization loans | 371 | (185) | - | (13) | - | 173 |

(1) Cash-flows includes issuance and repayment

The current economic, operating and capital market environment resulting from COVID-19 pandemic has led to an increased emphasis on liquidity. While management has not changed the REIT's objectives in managing capital, the current focus is on increasing the control of cash flows and ensuring effective use of our existing liquidity.

Corporate information

Head office

Inovalis REIT

151 Yonge Street, 11th floor

Toronto, Ontario, M5C 2W7

Investor relations

E-mail: info@inovalis.com

Website: www.inovalisreit.com

Stock exchange listing

The Toronto Stock Exchange

Listing symbol: INO.UN.TO

Distribution Reinvestment Plan

Inovalis has implemented a Distribution Reinvestment Plan (“**DRIP**”). By participating in the Plan, unitholders have cash distributions from Inovalis REIT reinvested in additional units as and when cash distributions are made with a “bonus” distribution of units equal to 3% of the amount of the cash distribution reinvested pursuant to the Plan. Until further notice, in response to the market disruption caused by the COVID-19 pandemic, the REIT has suspended its Distribution Reinvestment and Unit Purchase Plan (the “DRIP”) effective as of the distribution payable on May 15, 2020 to unitholders of record as at April 30, 2020.

INOVALIS

REAL ESTATE INVESTMENT TRUST

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